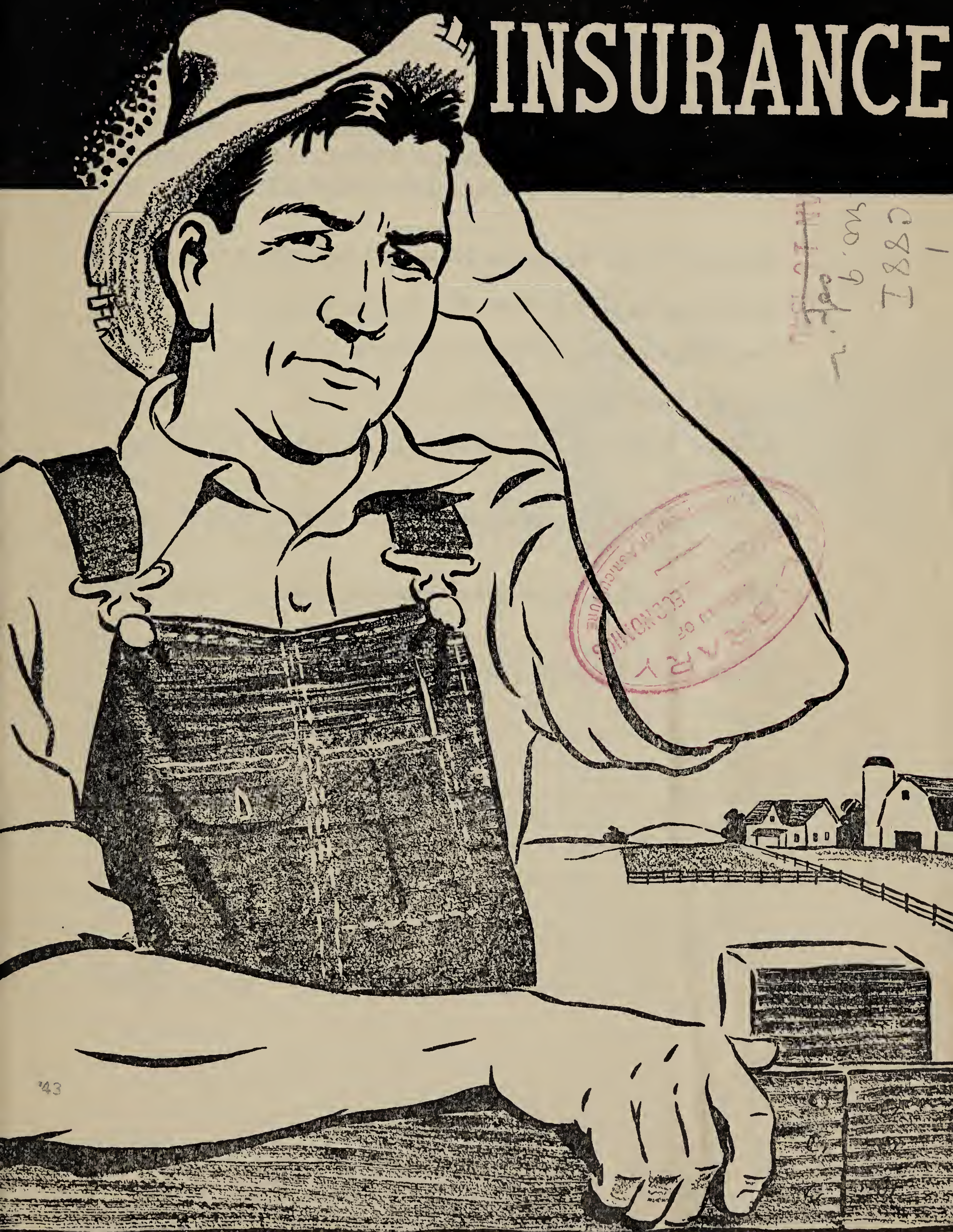
Questions and Answers on WHEAT CROP INSURANCE



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QUESTIONS AND ANSWERS ON WHEAT CROP INSURANCE

QUESTION 1: What is crop insurance?
ANSWER: Federal crop insurance is protection offered to wheat growers under the Federal Crop Insurance Program authorized by Congress in Title V of the Agricultural Adjustment Act of 1938. The program provides the means by which wheat growers may insure 50 or 75 percent of their average yield against unavoidable hazards.

QUESTION 2: What is meant by unavoidable hazards?
ANSWER: Wheat crop insurance will protect the grower from crop loss due to drought, flood, hail, frost, fire, winterkill, tornado, storm, insects, animal pests, plant diseases, incursion of animals, and any other natural cause of loss not specifically mentioned.

QUESTION 3: How is the insurable yield determined for a farm?
ANSWER: The average yield for the farm is determined on the basis of its actual or appraised yield history during the 9-year base period, 1930–38, adjusted to a 13-year base (1926–38) or longer for the county in which the farm is located. If actual yield records are not available for the farm, its yields are appraised on the basis of similar "key" farms for which certified yields are on record. The "insurable yield" is the grower's interest in either 50 or 75 percent of the average yield.

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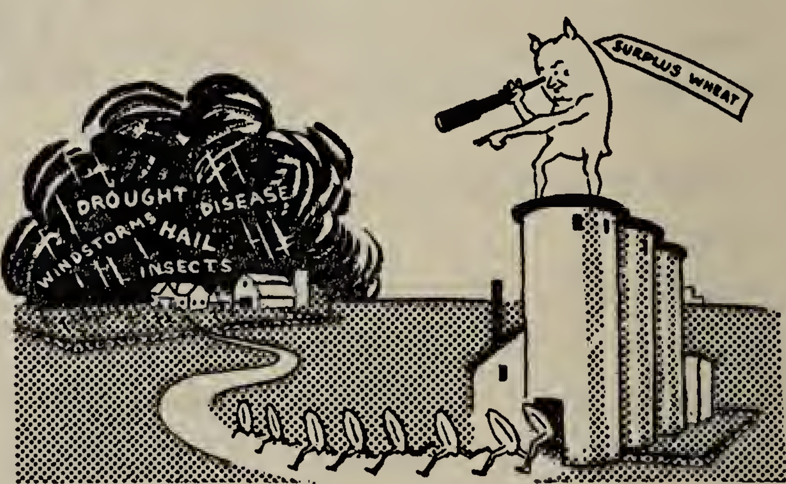
QUESTION 4: How much does crop insurance cost a grower?
ANSWER: The cost of crop insurance varies from farm to farm according to the amount of risk involved in growing wheat on the farm, and in the county, as shown by the loss history of the farm, either actual or appraised, for the 1930–38 base period, adjusted to a 13-year or longer base period for the county.

QUESTION 5: What does the premium rate represent?
ANSWER: The premium rate represents an annual payment which, as determined above, over a 13-year period will amortize the average losses of the farm. In other words, if a farmer's yields fell below the insured amount by a total of 13 bushels an acre during the base period, the premium rate would be 1 bushel an acre.

QUESTION 6: What becomes of premiums paid in by farmers?
ANSWER: Premiums paid in by farmers are deposited in a special insurance reserve of actual wheat in storage. This wheat is held in trust for the sole purpose of providing wheat for payment of indemnities to insured growers who suffer crop losses. This reserve can be built up only as wheat flows in as a result of premium payments and can be reduced only as wheat goes out in indemnities to insured growers.



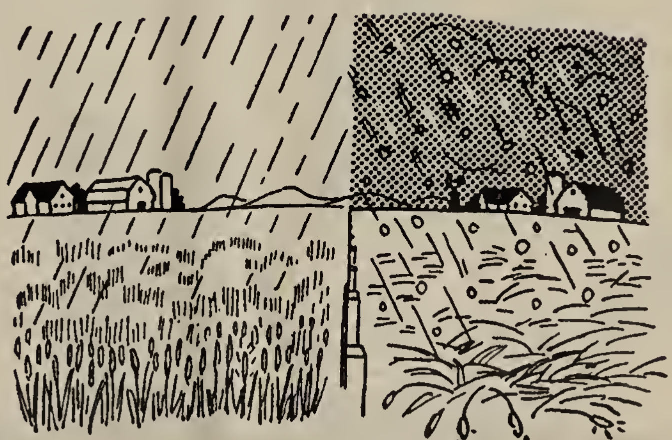
QUESTION 7: Must premiums be paid in actual wheat?
ANSWER: No. Although insured yields and premium rates are calculated in terms of bushels, premiums may be paid with actual wheat by turning a warehouse receipt over to the Corporation, or in the cash equivalent by check, money order, or cash representing the value of the amount of the premium at the current market, or by executing an advance aganist future payments to be earned under the Agricultural Conservation Program.

QUESTION 8: Who pays the administrative cost of the crop-insurance program?
ANSWER: The entire administrative cost of the crop-insurance program, including the cost of storage of wheat in insurance reserves, is paid from a special Federal appropriation for that purpose. This is the Government's contribution to crop insurance as an experimental program which may do much to safeguard the national welfare by preventing recurrences of he economic shock resulting from wheat-crop failure. The premiums paid by the growers represent only the cost of insurance against crop failure for the grower's farm and county.

QUESTION 9: Who may apply for crop insurance?
ANSWER: Any grower or operator having an interest in the wheat crop is eligible to apply for crop insurance on that part of the wheat acreage in which he has an interest.

QUESTION 10: For how much may a tenant insure his crop?
ANSWER: A tenant may insure his interest in the average yield of the farm. For example: If a tenant is leasing on a 50–50 basis and the insured production for the farm is 1,000 bushels, the grower may insure his share, which would be 500 bushels.

QUESTION 11: Must a grower comply with the agricultural conservation programs to be eligible for crop insurance?
ANSWER: It is not necessary that a grower comply with requirements of the Triple-A program, but the maximum total production which may be insured for the farm will be limited to the insurable production of the allotted acres for the farm. Wheat raised on any excess acreage will be counted as production in computing any indemnity due the grower under his insurance contract.



QUESTION 12: How can a farmer determine whether he can afford to carry wheat crop insurance?
ANSWER: Since the actual expense of crop insurance is based on the average of past

loss experience of the farm, and since it may be expected that this farm may experience similar losses in the future, it would seem that wheat crop insurance is a good investment for any grower.

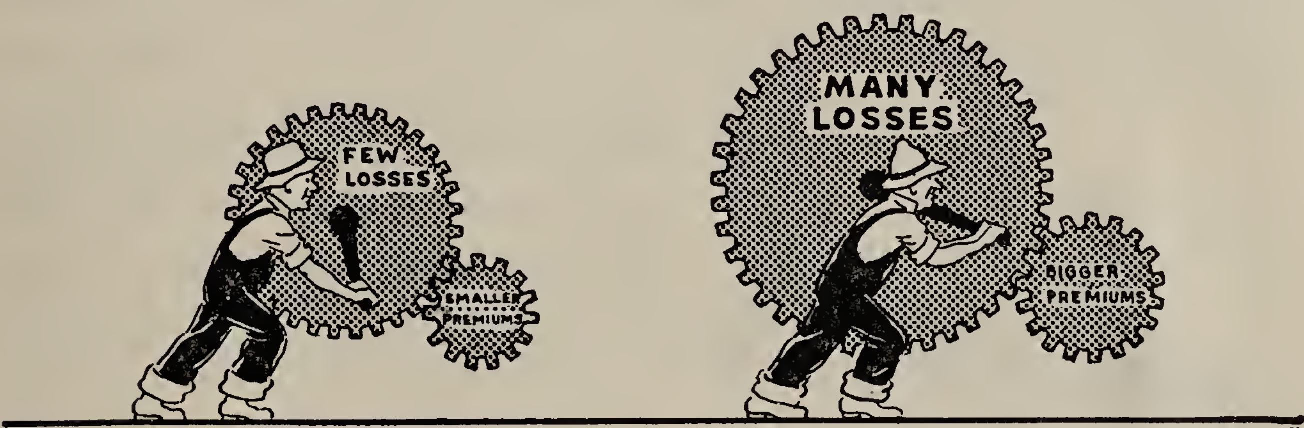
QUESTION 13: If, in the long run, premiums paid by a grower will equal indemnities he may receive, why can't he carry his own insurance as economically?
ANSWER: Premiums paid for insurance represent relatively small annual contributions to the group reserve. Crop failure frequently takes the entire crop leaving the grower with nothing to sell for the year. Consequently, crop insurance will not increase a grower's total production, but it will provide a means of spreading that production evenly over a period of years. An individual grower cannot do this economically since it would require that he carry a large reserve from year to year to safeguard against crop failure and once such an individual reserve is exhausted, the grower has nothing to fall back on in case another crop failure strikes.

QUESTION 14: Do rates paid in one county affect the rates paid in another county?
ANSWER: No. The rates in any county are based on the actual experience of the county. In the long run premiums paid by growers in any county should be sufficient to pay losses that occur in that county.

QUESTION 15: Why is 75 percent of the average yield the most that a grower may insure?
ANSWER: When crop insurance was originally proposed and since the cause of crop loss cannot always be accurately determined, it was felt that serious "moral hazards" would tend to defeat the plan. That is, some farmers might find it more profitable to collect insurance than to harvest a good yield. Therefore, the insurance was limited to 75 percent. This gives the farmer assurance that he will have at least a substantial portion of his crop to sell every year, and at the same

time, makes it more desirable for him to harvest the best possible yield rather than to collect insurance thus limiting the "moral hazard."

QUESTION 16: Why can't the more fortunate farmers help those with higher losses by bearing more of the loss cost?
ANSWER: One of the basic principles of the crop insurance program is that insurable yields and premium rates are based directly on the individual farm and county. Previous experiments in crop insurance have shown that if rates were zoned so that the more fortunate growers would in theory pay more than their share of the loss cost, the result was that growers with high risks bought insurance at a bargain while growers with low risks did not buy the insurance since the rate was unfair to them. Any variance from the accurate rates for the individual farm would in the long run defeat the purpose of the insurance program, and would make it impossible for both low-risk and high-risk producers to obtain the protection.



QUESTION 17: How will crop insurance affect income?
ANSWER: In the long run, crop insurance may actually increase a grower's wheat income. A grower may gain because the price of wheat tends to be low in those years of surplus wheat and higher in years of short crops and widespread failure. On the average, growers will receive the most wheat from the reserve in years of short crops when prices are tending upward. In other words, crop insurance permits producers to use surplus wheat for protection.

QUESTION 18: Why are individual premium rates averaged with premium rates for the county?
ANSWER: Individual farms may have suffered unusually heavy losses during the base period which are of a purely acci-

dental nature and may not be expected to occur normally. On the other hand, a farm may have escaped losses which would normally be expected over a representative period. By blending the premium rate with that of the county, the effect of pure luck—either good or bad—is partially eliminated, and at the same time, the premium rate reflects the actual experience of the farm.

QUESTION 19: When an insured farmer has a loss, how does he collect insurance?

ANSWER: When an insured farmer has a loss, he notifies his county committee on the form provided for that purpose, and the loss is adjusted as soon as possible. He is entitled to recover the difference between the amount of wheat guaranteed him under his crop insurance contract and his share of the amount of wheat actually produced on the farm.

QUESTION 20: When can losses be settled?

ANSWER: The date on which losses will be settled depends on the type of loss. A total loss of the crop will be settled as soon as such loss occurs. A "substantially total" loss will be adjusted as soon as it occurs if the grower desires to put the land to some other use. The wheat crop shall be considered to have been substantially destroyed if the Corporation finds that it has been so badly damaged that farmers generally in the area where the farm is located would not further care for the crop for wheat production.

QUESTION 21: Will a grower be paid his indemnity in wheat or in the cash equivalent?

ANSWER: A grower who has suffered a loss may indicate in his statement in proof of loss whether he wishes his indemnity to be paid in wheat or in cash, but the Corporation reserves the right to make the payment in a form other than that indicated by the insured. As a general rule the Corporation will

endeavor to follow the request of grower. However, in case the indemnity is too small to justify transfer of wheat or if wheat is not available it may not be feasible to pay certain indemnities in wheat in which case growers will receive cash equivalent.

QUESTION 22: How is the cash equivalent of an indemnity determined?

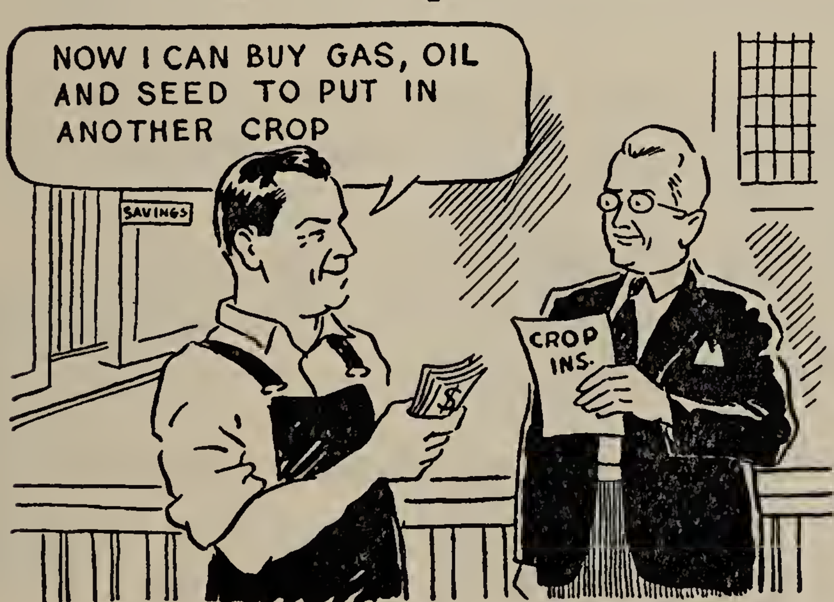
ANSWER: Stated in the simplest form the cash equivalent of an indemnity is the value of the bushels of wheat called for by the indemnity at the current market price. The indemnity is based on the *same class and grade* of wheat as that for which the grower was insured and on the basis on which he paid his premium.

QUESTION 23: When are premiums due?

ANSWER: Premiums are due in wheat or cash at the time the farmer submits his application. All applications must be signed before the dead-line established for a State or county or before the crop to be insured is planted, whichever is earlier.

QUESTION 24: Can a farmer use his insurance contract to obtain credit?

ANSWER: A crop insurance contract may be assigned as security for (1) any loan; (2) the amount of the current year's rental for the farm; or (3) an annual installment due under a purchase, mortgage, or trust agreement in respect to the farm.



QUESTION 25: May a farmer use his wheat for pasture?

ANSWER: Yes. However, the contract does not insure against loss in yields caused by overpasturing.

QUESTION 26: Does crop insurance cover the loss in quality of the crop?

ANSWER: Crop insurance is quantity insurance and covers loss in quality only to the extent that such loss—as in the case of rust—reduces the actual yield below the insured yield.

QUESTION 27: If a grower sells all of his interest or a part of his interest in the crop, can the insurance be transferred to the buyer?

ANSWER: Yes. Voluntary transfer of the grower's interest in the insured crop may be transferred to the buyer with the approval of the Corporation.

QUESTION 28: Can volunteer or self-seeded wheat be insured?

ANSWER: No. Under the 1940 program only wheat seeded either by drilling and covering or broadcasting and covering after proper preparation of the seedbed can be insured.

QUESTION 29: Will grain harvested from volunteer or self-seeded acres be counted against the insured yield when 1940 crop losses are adjusted?

ANSWER: No. Under the 1940 program only production from seeded wheat, that is wheat which has been drilled or broadcast as specified above, will be counted against insured production.

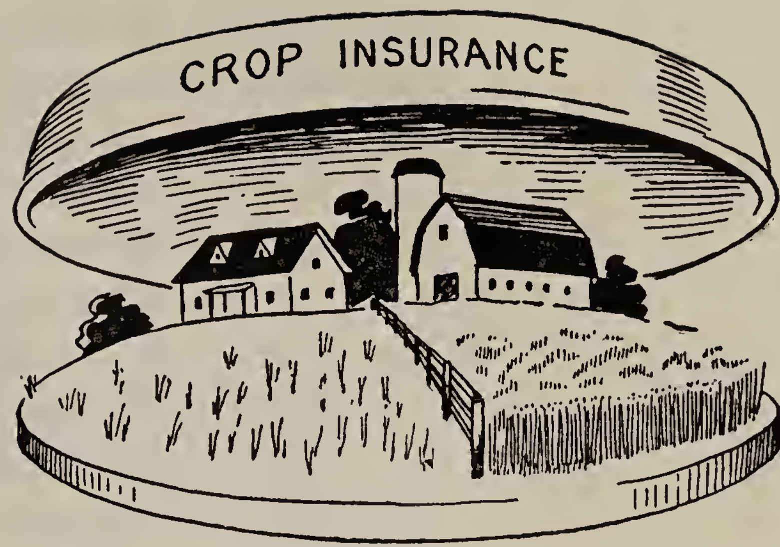
QUESTION 30: If a grower has two farms, both of which are insured, will a separate loss adjustment be made on each of such farms in case of a loss?

ANSWER: Each "farm," as defined by the Crop Insurance Regulations, will have a separate contract and settlement of loss will be made for each such farm.

QUESTION 31: How much seed will an insured grower be required to plant per acre?

ANSWER: Enough good seed to produce a normal crop.

QUESTION 32: Can a grower insure only a part of the wheat acreage on his farm?



ANSWER: No. He must insure the entire farm. This does not mean that he is compelled to insure all of his farms in case he has more than one. He can insure each farm separately.

QUESTION 33: Can the Corporation sell the wheat received in payment of crop insurance premiums?

ANSWER: The Corporation may not sell wheat it acquires through payment of premiums except for the following purposes:

1. To pay indemnities to insured growers.
2. To refund any unused premiums to the grower.
3. To prevent deterioration of wheat in storage.
4. To change location of wheat in storage.

Wheat sold to prevent deterioration or to change location must immediately be replaced by an equivalent amount.

QUESTION 34: Suppose a farmer makes application for crop insurance on his wheat acreage and, after he has paid the premium, it becomes too dry to seed. What will be done about this?

ANSWER: In case the farmer does not seed, his premium will be refunded. Any refund of premiums shall be made only in the cash equivalent of the quantity of wheat to be refunded less an amount not to exceed one-twentieth of 1 cent a day per bushel to cover storage and handling expense.

QUESTION 35: When can the crop be considered insured?

ANSWER: Insurance becomes operative at the time the wheat crop is seeded, if the premium has been paid and the application has been accepted by the Corporation.

QUESTION 36: When does the insurance cease?

ANSWER: The insurance ceases with respect to any portion of the insured crop upon threshing or removal by the farmer, but in no event later than midnight of the 30th day of September 1940, unless specifically extended in writing by the Corporation. In the case of combined and field-sacked grain, the insurance shall continue for 120 hours after threshing.

QUESTION 37: How does a producer know when his application for insurance has been accepted by the Corporation?

ANSWER: Growers will receive a formal acceptance notice from the Corporation notifying them of the acceptance of the insurance application, which thereupon becomes a contract between the producer and the Corporation.

QUESTION 38: Is a crop insurance contract assessable?

ANSWER: No. The only cost of the insurance is the premium. After payment of the premium and acceptance of the application by the Corporation, the producer is assured of the protection the contract offers and in no case is he obligated to make any additional payments.

QUESTION 39: Suppose the wheat crop over the entire country suffers heavy losses so that premiums paid in are not sufficient to meet the losses of insured growers?

ANSWER: The premium rates are based on long-time average "loss costs" and thus over a period of years premiums paid in and indemnities paid out should just about balance. However, they may not balance in any one year, and in such a case the Corporation may use a part of its $100,000,000 authorized capital, of which $20,000,000 is available, to balance the wheat reserve, thus assuring all growers that all valid claims or indemnities will be paid.

QUESTION 40: Can a farmer insure wheat planted on a field that has not grown wheat before?

ANSWER: If the county committee agrees that the land is suitable for growing wheat, it can be insured. If there are no records of wheat yields on the farm, insurable yields and premium rates can be appraised.

QUESTION 41: Why must an application be filed and the premium paid before the crop is seeded?

ANSWER: In order that the program may be fair to all farmers, it is essential that both the Corporation and the farmer be

on the same ground with respect to the prospects of the insured crop. If it were possible to insure a crop after it had been seeded, this would enable some growers to insure only wheat which was deteriorating or was threatened by an immediate hazard. It is important that the program maintain a representative participation and that each farmer be insured on the same basis.

QUESTION 42: What are price differentials?

ANSWER: Price differentials are the amount per bushel fixed by the Corporation representing (1) transportation charges between the local delivery point for the farm and the basic market wherever, in the opinion of the Corporation, such charges are applicable, and (2) other usual charges in connection with the handling of grain.

QUESTION 43: Why are price differentials used in computing cash equivalent when the premium is purchased, held, and sold at terminal points?

ANSWER: The value of wheat varies from county to county in accordance with price differentials affecting the various local stations at which farmers sell their wheat. Although the Corporation maintains its wheat largely in terminal markets, the value of each farmer's premium and indemnity is figured for his local station in order that all farmers may be treated exactly alike with respect to the value of their wheat. To arrive at the accurate price at the local station it is necessary to use the price differentials to determine this value at the local station.

QUESTION 44: Why must the whole farm be insured and not separate fields?

ANSWER: To insure separate fields would involve setting up yields and loss costs for each field on a farm. This would make the administration of the program unduly expensive and further, would enable some growers to insure only that portion of the farm where losses were most frequent and not those acres which generally produce good yields.

QUESTION 45: Is a farmer eligible to obtain crop insurance for 1940 if he had a policy on his 1939 crop and did not receive a Triple-A wheat payment?

ANSWER: Yes. Such a grower is eligible.

QUESTION 46: In settling losses, will growers be required to harvest crops which obviously will not return the cost of harvest?

ANSWER: Where the crop is damaged so badly early in the growing season that farmers generally in the area would not further care for the crop for wheat production, it may be appraised as a total or "substantially total" loss, and the grower may obtain permission to put the land to other use and any appraised production counted as actual production. If the damage is not total or substantially total, adjustment of the loss will not be made until harvest when the actual yield can be determined. At harvesttime the insured will be expected to harvest if growers generally are harvesting wheat similar to his. However, if farmers generally are not harvesting such wheat the insured need not harvest his and only salvageable production will be counted as production.

QUESTION 47: When may a grower be granted permission to make other use of the land during the growing season?

ANSWER: At any time after the crop is planted when it is possible to obtain definite knowledge that the crop is a total or substantially total loss.

QUESTION 48: Suppose a grower has in recent years adopted improved practices such as irrigation, summer fallow, or fertilization of the land, which materially increase his yield possibilities and reduce the possibilities of loss. These improvements are not reflected in his base period. Can he obtain insurance on the basis of his new system of farming?

ANSWER: Yes. Under certain conditions the county committee may give weight to special practices being followed by a farmer. Any change of insured yield and premium because of special practices will be limited by the actual experience of such practices on the same type of land during the base period.

QUESTION 49: Can a grower insure more than 1 year's crop?

ANSWER: At the time the grower pays his premium on his 1940 crop he may also deposit with the Corporation an amount equal to his 1940 premium to be applied as premium on his 1941 crop should he desire to be insured, and should the Corporation accept his application for 1941.

QUESTION 50: Why does the price of premium wheat or indemnity wheat as computed by the Corporation for a local station sometimes vary from the local price for the same class and grade of wheat?

ANSWER: The Corporation computes the grower's local price as of a given date on the basis of the average price of the same class and grade of wheat as designated for the insured's farm at the basic market and arrives at the normal local price by deducting the cost of freight and handling charges, or price differentials, between the grower's local station and the basic market. The local price paid for wheat, however, may vary from the normal price because of such factors as (*a*) protein content that is above or below average, (*b*) wheat that is above or below average quality, and (*c*) local competitive conditions. The Corporation does not consider protein content, either in collecting premiums or in paying indemnities.

QUESTION 51: Why may the producer receive fewer bushels of wheat at the basic market than called for in his statement in proof of loss?

ANSWER: If the grower receives an indemnity in wheat at his local station he receives the same number of bushels as stated in his statement in proof of loss. However, if he receives

wheat at a basic market, such wheat is worth more per bushel because the freight and handling differentials have been paid on it. Consequently it takes fewer bushels at the basic market to give the growers the same equivalent in value of his indemnity. The grower gets the same value whether he receives wheat at his local station or at a basic market, although the number of bushels may vary at each point.

QUESTION 52: If the producer receives an indemnity in the cash equivalent, what date will be used in determining this cash equivalent?
ANSWER: The market price, as determined by the Corporation, for the day the claim for indemnity is approved for payment by the Corporation.

QUESTION 53: If the payment of a premium is made by means of an advance from the Secretary of Agriculture under the agricultural conservation program, is the producer charged any interest on the funds so advanced to the Corporation?
ANSWER: No. Interest will not be charged.

The FEDERAL CROP INSURANCE CORPORATION
U. S. DEPARTMENT OF AGRICULTURE
Washington, D. C.

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